
On the Margin: In the Beginning was the Word “Framework”

Friday, November 16, 2018

Developing items of interest and deeper color on themes from our regular reports.

Ross says expect “only” a China trade framework. That means expect a framework.

So much is going wrong all at once. But we think the US/China trade war is at the existential center of it (see [“Chinese Tariff Torture”](#) October 29, 2018) – whether through the blow to US earnings arising from full-on tariff implementation, or worse, through pushing the Chinese economy off a systemic cliff (see [“On the Margin: China’s Scariest Fragility”](#) August 6, 2018). Client conversations are now dominated by questions about how we can identify the all-clear signal on these risks, indicating an end to the present equities correction. We may have just gotten the earliest hint.

We’ve been telling clients to look for the word “framework” to emerge in Trump administration rhetoric ahead of the month-end meeting between US President Donald J. Trump and China President Xi Jinping. We think that’s the administration’s preferred codeword for “the firm basis of a deal – documentation to follow.” That was the word used in September 2017 when the [House and Senate GOP finally agreed on basic terms](#) for what would emerge three months later as the Tax Cuts and Jobs Act – and that’s when we knew for sure tax cuts were really going to happen (see [“Tax Cuts Start to Get Real”](#) September 28, 2017). May’s China negotiations, the [tentative agreements from which](#) were soon aborted, never earned the word “framework.”

Maybe it’s just a coincidence. But yesterday we got the word “framework.” [Commerce Secretary Wilbur Ross told Bloomberg,](#)

It can’t be expected that the two presidents will “get into intimate details – how much LNG and how much this and that. It’s going to be big picture, but if it goes well, it’ll set the framework for going forward,” Ross said. “We certainly won’t have a full formal deal by January. Impossible.”

As to reports that [discussions are already ongoing](#) between US Treasury

Update to strategic view

US MACRO, ASIA MACRO: China trade hawk Ross has warned markets that “at best” the Trump-Ji talks will yield a “framework,” and that in the meantime any talks are only “preparatory.” We think “framework” is a preferred administration codeword for a workable solution still subject to details, and we take Ross’s warning as a signal that it is coming, and that preparations are being made for it. Navarro’s unhinged speech accusing Wall Street of complicity in a China-led influence campaign – and Kudlow’s public spanking of him for it – are further evidence that a deal is coming. Either the administration hawks aren’t happy about it, or they are just playing their proper role as “bad cop” to keep the pressure on China.

[\[Strategy dashboard\]](#)

Secretary Steven Mnuchin and Chinese Vice-Premier Liu He, and that [China is already lining up concessions](#) to the US, Bloomberg's report says Ross regards "everything leading up to the meeting is just 'preparatory.'" Bloomberg reports Ross believes "The U.S. still plans to raise tariffs on Chinese imports in January."

Such statements are Ross's proper role as one of the administration's hard-liners on China. But when Ross acts to lower expectations by warning that the Trump-Ji summit will "likely at best" lead to a framework, he is implicitly signaling that a framework is in the works. And *of course*, by definition, anything before the summit is "preparatory" – he is implicitly signaling that preparations are in fact happening. As to the threat of the existing 10% tariffs clicking up to 25% at year-end, *of course* Ross plays "bad cop" by keeping the pressure on – that, too, implicitly signals that real negotiations are underway.

We note also that US Director of the Office of Trade and Manufacturing Policy Peter Navarro [gave a more than usually unhinged speech this week](#) at the Center for Strategic and International Studies, in which he claimed Wall Street interests were acting as "unpaid foreign agents" to influence negotiations:

"As part of a Chinese government influence operation... globalist billionaires are putting a full-court press on the White House in advance of the G-20 in Argentina... Wall Street, get out of those negotiations. Bring your Goldman Sachs money to Dayton, Ohio, and invest in America."

National Economic Council Director Larry Kudlow – himself having the prior week worked to lower expectations for a deal [at an appearance at the Chicago Economics Club](#) – took the extraordinary step of [publicly calling Navarro out](#). According to Kudlow, Navarro was "way off base," "free-lancing," and "not representing the president or the administration." Kudlow said Navarro's remarks were "not authorized by anybody" and they had done "a great disservice."

The reflexively anti-Trump [Washington Post](#) characterized Kudlow's remarks primarily as new evidence in its ongoing narrative about White House "chaos." We see it more as the dynamics of the ["team of rivals"](#) that Kudlow was promised when he took his White House job (see ["On Kudlow for NEC Director"](#) March 14, 2018). Besides, bureaucratic infighting is nothing new in Washington. And this particular kind of infighting – in which advocates of opposing policy options discredit each other in public in order to weaken

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each other's positions – indicates that the policy process is reaching its most productive state. ▶